

United States v. Juan Carlos Viera, et al. and United States v. Alex Oria, et al.
Prepared Remarks of United States Attorney Preet Bharara
July 17, 2012

Good afternoon. My name is Preet Bharara, and I am the United States Attorney for the Southern District of New York.

Today, we announce the unsealing of charges against 48 individuals for participating in a massive scheme to divert hundreds of millions of dollars in prescription drugs after they had been dispensed to Medicaid beneficiaries in the New York City area.

Through tremendous hard work and investigation, the FBI's Health Care Fraud Task Force uncovered an enormous underground and largely unexposed black market for some of the most potent and costly prescription drugs available – drugs meant to treat conditions like HIV/AIDS, schizophrenia, and asthma.

The scheme started on the streets, literally, where Medicaid beneficiaries would re-sell, for cash and at a steep discount, the sealed bottles of drugs they obtained, usually free, from Medicaid. These re-sales took place on street corners and in bodegas around the City, often in Washington Heights and in the Bronx.

The buyers would then re-sell the collected drug bottles up the criminal chain until certain defendants had amassed enormous stockpiles of high-cost prescription drugs – stockpiles like the one shown on the chart to my left.

In the end, these repackaged medications would be purchased by pharmacies and be passed off as freshly-manufactured to new and unsuspecting patients, as Medicaid was often bilked a second time.

Through this scheme, as described in the charging documents, the defendants worked a fraud on Medicaid, a fraud on pharmaceutical companies, a fraud on legitimate pharmacies, a fraud on patients who unwittingly bought second-hand drugs, and ultimately a fraud on the entire health care system.

As alleged, the fraud involved scores of people throughout the country – including New York, New Jersey, Pennsylvania, Florida, Texas, Louisiana, Nevada, and Alabama.

As also alleged, over just a 15-month period, the value of drugs diverted by only a subset of defendants was conservatively estimated to be \$108 million. Because we believe the scheme lasted at least five times longer than that, the total diversion – and cost to Medicaid – is likely far in excess of half a billion dollars.

Now before going any further, let me introduce and thank our partners in this case.

I am joined here today by the FBI, led by Assistant Director in Charge of the FBI New York Field Office, Janice Fedarczyk; the newly appointed Special Agent-in-Charge for the Criminal Division, April Brooks, to whom I would like to extend a special welcome; Assistant Special Agent-in-Charge, Rachel Rojas, and Supervisory Special Agent, John Casale; New York City Police Department Commissioner, Ray Kelly, Inspector Brian O'Neill of the Organized Crime Division, and Captain George Pietropinto; and by New York City Human Resources Administration Commissioner Robert Doar, and James Sheehan, Chief of the Public Integrity Office.

I'd like to thank the FBI's Health Care Fraud Task Force, the NYPD and the New York City Human Resources Administration for their efforts in investigating this case. In addition, I'd like to thank the DEA, Department of Homeland Security's HSI, and the New York State Office of Medicaid Inspector General, all of which provided invaluable assistance.

And finally, I want to commend the outstanding work of the career prosecutors on this case: Assistant United States Attorneys Jason Masimore and Russell Capone, supervised by Jennifer Rodgers and Elie Honig, the Co-Chiefs of our Organized Crime Unit.

Because of the significance of this case, this team of investigators and prosecutors pulled out every stop to dismantle the ring that stands charged today.

The investigation involved 13 court-authorized wiretaps and multiple search warrants of premises, packages, and e-mail accounts.

And during the investigation, the FBI seized more than 33,000 bottles of second-hand prescription drugs, and more than 250,000 loose pills, most of which were allegedly stored by the defendants in uncontrolled and improper conditions.

Now let me briefly explain a bit more about the fraud scheme and the black market for second-hand prescription drugs.

As described, the black market allegedly run by the defendants involved a double-dip fraud of gigantic proportions. On the front end Medicaid was defrauded into paying for drugs that beneficiaries sold rather than swallowed.

On the back end, the scheme was designed to fool legitimate customers who obviously would not have knowingly accepted second-hand drugs and insurance companies that would not have knowingly reimbursed for second-hand drugs.

To reap the greatest profit, the defendants targeted the most expensive drugs, some of which cost Medicaid over \$1,600 per bottle.

Once the Medicaid beneficiaries received these drugs, they sold them to "Collectors" on street corners and bodegas in and around New York City. These Collectors paid the beneficiaries for the drugs, in cash, and at a fraction of the actual value of the medications.

The Collectors then sold the drugs up the chain so-called “Aggregators,” who typically bought large stockpiles of second-hand drugs from multiple collectors.

Eventually, the Aggregators sold the pills, in bulk, to other defendants and co-conspirators who controlled corrupt wholesale drug distribution companies. These companies were designed to conceal the fact that the drugs they were peddling came off of the streets of New York City, rather than from the manufacturer. The corrupt companies then sold the second-hand drugs to other companies and pharmacies across the United States – where those drugs would then be dispensed to unsuspecting consumers.

The photo on my left shows \$11.7 million worth of prescription drugs that we seized from inside the residence of a single Aggregator in the New York City area. The numbers are staggering: 19,473 bottles, and more than 247,000 loose pills – a volume of drugs would fill up this room.

Now, as I said before, these were not drugs of abuse but were medically prescribed for patients suffering from HIV/AIDS and other conditions. And so the second-hand bottles had value on the black market only if they could be cleaned up to look like they were brand new.

So, as charged in the Indictment, the defendants and their co-conspirators went to great lengths to disguise the fact that the drugs had been purchased on the street. They allegedly treated the medication bottles with lighter fluid and other chemicals, to remove patient labels that showed the drugs had already been dispensed.

And when the bottle or the manufacturers’ labels became damaged, or the prescription drugs were expired, the defendants allegedly stuck counterfeit labels on the bottles to make them look new and unexpired. And if the defendants didn’t have counterfeit labels handy, they allegedly dumped the pills out of the bottles and sold plastic bags full of untraceable loose pills.

As a result of this investigation, we have taken a significant step towards exposing and shutting down the black market for second-hand drugs. But our investigation is continuing, and you should expect more shoes to drop.

Two things should be clear. Number one: Pharmacies have an absolute responsibility to know where they are getting their prescription drugs from. They have an absolute responsibility not to look the other way and to take every step to make sure they are not cheating their customers by buying and dispensing second-hand drugs.

And number two: The message should be crystal clear to those who think they can get away with passing off second-hand prescription drugs to the sick: we will use every resource at our disposal to give you a taste of your own medicine.